

GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Cheyenne Western Bank, Ashland, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of March 26, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

Three major factors contribute to this rating. First, the bank maintains a reasonable loan-to-deposit ratio. Second, the bank has made a significant number of its loans within its assessment area. Third, the bank has an excellent distribution of loans between borrowers of different income levels.

The following table indicates the performance level of Cheyenne Western Bank, Ashland, Montana, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Cheyenne Western Bank, Ashland, Montana PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior evaluation.		

DESCRIPTION OF INSTITUTION

Based on a variety of factors, the bank is able to meet the credit needs of the local community in an effective manner. The bank is located in Ashland, Montana, a rural community of 800 residents.

The bank's size supports its ability to meet credit needs in its assessment area. Based on its December 31, 1995, Report of Condition ("ROC"), the bank had total assets of approximately \$7.1 million. Since June 30, 1994, the bank's assets have increased by approximately \$1 million. As of December 31, 1995, approximately 56% of the bank's loan portfolio is real estate loans. Another 22% of the portfolio consists of consumer loans. Commercial loans account for 13% of the bank's loan portfolio, and agricultural loans account for 9% of the bank's loan portfolio. This loan distribution has changed little since the June 30, 1994, ROC. Due to its size, the bank's legal lending limit is very low. This prevents the bank from competing for larger agricultural and commercial credits.

The bank offers a variety of loan products that seem appropriate for a rural bank of its size. The bank provides many types of loans in each of the following categories: agriculture, consumer, real estate, and commercial.

The bank's only office is in Ashland, Montana. It has not opened or closed any offices since its inception. The bank is able to provide its products and services to its entire assessment area. The assessment area includes the entire Northern Cheyenne Indian Reservation ("Reservation").

DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area includes portions of Big Horn, Rosebud, and Powder River Counties. Specifically, the assessment area includes the following block numbering areas ("BNA"):

Big Horn County: 9642 and 9643
Rosebud County: 9626, 9627, and 9628
Powder River County: 9608

Ashland is a small town in southeastern Montana, about 150 miles from Billings. Ashland and its immediate surrounding area have approximately 800 residents and few businesses. The largest employers in the area include a school and a lumber company. Ashland borders the Reservation, an 800-square-mile area containing mostly ranch land and forests. Approximately 4,000 of the Reservation's approximately 5,000 residents are Indians. Most housing for tribal members has been built through HUD programs. The major employers on the Reservation are the federal government and the schools. The tribe owns 98% of the Reservation's land and most ranchers on the Reservation are tribal members.

CRA divides income levels into four categories: low, moderate, middle, and upper income. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income individual as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median family income. An individual with an income that is 120% or more of the statewide nonmetropolitan median family income is considered an upper-income person. BNAs are classified using similar categories based on the level of the median family income in the geography.

As previously mentioned, the bank's assessment area is divided into six BNAs.

BNA 9642 is designated as low income, BNA 9627 is designated as moderate income, BNAs 9608 and 9628 are designated as middle income, and BNAs 9643 and 9626 are designated as upper income. The low- and moderate-income BNAs are located on the Reservation. According to 1990 U.S. census data, the assessment area's median family income is \$29,050, while the median family income for the nonmetropolitan areas in Montana is \$27,352. Approximately 12% of the population in the bank's assessment area reside in the low-income BNA, 30% reside in the moderate-income BNA, 16% reside in the middle-income BNAs, and 42% reside in the upper-income BNAs.

The assessment area's median household income of \$27,242 is below its median family income of \$29,050. Of the 2,906 households in the assessment area, 21% are low income, 14% are moderate income, 14% are middle income, and 51% are upper income. More than 22% of the households are below the poverty level.

Examiners contacted several community members, including tribal contacts and local organizations, as part of the bank's CRA evaluation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is satisfactory. The criteria detailed below were evaluated in determining this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio meets the standards for satisfactory performance. The bank's loan-to-deposit ratio is reasonable for a small, rural bank. According to the bank's December 31, 1995, ROC, the bank's quarterly loan-to-deposit ratio is approximately 45%. Since June 30, 1994, the quarterly average of the bank's net loan-to-deposit ratio has been 46%. The following chart, based on quarterly ROC data, shows that the bank's loan-to-deposit ratio has been fairly consistent despite some seasonal agricultural borrowings.

<u>Date</u>	<u>Net Loan-to-Deposit Ratio</u>
June 30, 1994	50%
September 30, 1994	51%
December 31, 1994	38%
March 31, 1995	40%
June 30, 1995	51%
September 30, 1995	49%
December 31, 1995	45%
Average Loan-to-Deposit	46%

This loan-to-deposit ratio places the bank in the 57th percentile relative to peer group banks. A comparison with the bank's primary competitor is not meaningful because of the substantial difference in the financial size of these institutions. As noted previously, the bank's size limits its ability to compete for large agricultural and commercial loans. Since much of the assessment area's economy is based on ranching, many of which are large operations, the bank's ability to serve this segment of the community is limited. Accordingly, the bank has focused on consumer lending. In addition, a significant portion of the bank's deposits are generated by a single depositor, subjecting the bank to potential liquidity concerns should the deposit withdraw or the bank's loan-to-deposit ratio increase significantly. For these reasons, the loan-to-deposit ratio, although relatively low, is reasonable for this bank.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's consumer lending in its assessment area exceeds standards for satisfactory performance. A review of a statistical sample of the bank's consumer loans originated since the previous evaluation reveals that almost all of its consumer loans were made inside its assessment area. The following table shows the percentages for the number and dollar volume of consumer loans made inside the assessment area.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA

<u>Major Loan Product Line</u>	<u>Total Number of Loans</u>	<u>Total Amount of Loans</u>
Consumer Loans	97	99

This level of concentration in the assessment area exceeds standards for satisfactory performance. As noted in the table, the vast majority of all the bank's loans are within the assessment area and it would be difficult to increase this concentration.

DISTRIBUTION OF CREDIT WITHIN THE ASSESSMENT AREA

Lending to Borrowers of Different Incomes

The bank's record of consumer lending to borrowers of different income levels exceeds standards for satisfactory performance. The income level of consumer borrowers is compared to the median family income for nonmetropolitan areas in Montana. As discussed previously, the assessment area median family income for this evaluation is \$29,050. The bank's distribution of loans by income level is shown in the following table.

DISTRIBUTION OF LOANS BY INCOME LEVEL IN THE ASSESSMENT AREA*

<u>Loan Type</u>	<u>Low Income</u>	<u>Moderate Income</u>	<u>Middle Income</u>	<u>Upper Income</u>
<u>Consumer Loans</u>				
Percentage of Total Loans	72	16	9	3
Percentage of Total Loan Amounts	64	20	8	8

*Income level is based on Montana's 1995 nonmetropolitan median family income of \$32,200.

Data in the table show that the bank made almost all its consumer loans to low- and moderate-income borrowers. As noted previously, 35% of the area's households are classified as low and moderate income. Furthermore, the table shows that 84% of the total amount of consumer loans were to low- and moderate-income borrowers. As such, the bank's lending to low- and moderate-income consumer borrowers significantly exceeds the percentage of these individuals who live in the assessment area.

Geographic Distribution of Loans

The bank's loans are distributed adequately throughout the assessment area and meet the standard for satisfactory performance. As previously mentioned, the bank's assessment area includes one low-, one moderate-, two middle-, and two upper-income BNAs. The following table illustrates the distribution of the bank's loans.

DISTRIBUTION OF LOANS IN ASSESSMENT AREA GEOGRAPHIES

<u>Type of Loan</u>	<u>Low Income</u>	<u>Moderate Income</u>	<u>Middle Income</u>	<u>Upper Income</u>
<u>Consumer Loans</u>				
Percentage of Total Loans	0	92	8	0
Percentage of Total Loan Amounts	0	94	6	0

The table indicates that the bank makes an overwhelming majority of its consumer loans in the moderate-income BNA, which includes 30% of the entire assessment area population. Although no loans showed up in the one low-income BNA, only 12% of the entire assessment area population resides here. Most of these residents live in Busby, which is located on the extreme western edge of the bank's assessment area. Some Busby residents conduct their banking in Hardin or Colstrip, Montana, which are the same distance from Busby as Ashland. Lending in upper-income tracts is also limited by convenient access for borrowers to competitors of the bank. For example, one of the upper-income tracts includes the town of Colstrip, where the bank's primary competitor is located.

General

No credit practices were discovered during the evaluation that are inconsistent with the substantive provisions of the fair housing and fair

lending laws and regulations. Isolated violations of two technical aspects of the Equal Credit Opportunity Act's Regulation B were noted during the evaluation. Management promised prompt corrective action. In addition, the bank has not received any CRA complaints since the previous evaluation.

PUBLIC DISCLOSURE

March 26, 1996

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Cheyenne Western Bank

Name of Depository Institution

093000200000

Identification Number of Institution

Ashland, Montana

Address of Institution

Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55401-2171

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.